PX 489

Message

From: [redacted]
on behalf of
Sent: 7/22/2019 8:19:47 AM
To: [redacted]@ripple.com [redacted]@ripple.com <[redacted]@ripple.com>]
Subject: [redacted] Commentary
Attachments: Christian Larsen - May and June 2019 [redacted] Commentary.pdf

Hi Christian:

Here is the most recent commentary for [redacted]

Please email or call if you have any questions or concerns that we can address.

Regards,

[redacted]

[redacted]

[redacted]

FUND COMMENTARY: MAY/JUNE 2019

Standardized Fund returns as of most recent quarter-end (06/30/2019): [redacted] since inception (6/25/2017)=[redacted] Performance over one year is annualized. Performance Results reflect the reinvestment of dividends and other earnings and are net of fees and expenses. Data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the Fund may be lower or higher than the performance quoted. Performance data current to the most recent month end may be obtained by calling [redacted]

Executive Summary

- The Fund gained [redacted] in the month of May and [redacted] in June, marking the fourth and fifth consecutive months of positive returns.
- Spot volumes rose dramatically, and the CME's Bitcoin futures set a volume record.
- Facebook announced Libra, its hotly-awaited entrance into the digital asset market.
- Bitcoin volumes continue to increase in Latin America generally and Venezuela in particular.

Performance and Market Update

In May, the Fund's NAV [redacted] and in June, it [redacted] All five digital assets in the Fund (allocations shown in Figure 1) increased substantially over the course of the two months. To put the recent momentum into perspective: May and June 2019 were among the best-performing months for Bitcoin since January 2014 (Figure 2), and as of June 30th, Bitcoin has rallied +255.10% from its trough in December of last year. At June month end, the Fund was [redacted] from its low on December 14, 2018, though still significantly off its December 2017 peak.[1]

Figure 1: Fund Allocation as of June 30, 2019

[redacted]

Source: [redacted]

Trading volumes increased substantially during the past two months. We show trading volume data on page 3. Analysts often interpret high volumes as confirmation of the legitimacy of a large move. (Conversely, large moves on low volume can be an indication of low liquidity rather than changes in sentiment). Despite the outsized trading volumes, we saw no clear fundamental explanation for the magnitude of the move over the past two months.

Figure 2: Bitcoin's Best Performing Months (1/1/14-6/30/19)

May 2017	+69%
August 2017	+66%
May 2019	**+61%**
October 2017	+50%
November 2017	+49%
December 2017	+48%
June 2019	**+44%**
May 2014	+37%
October 2015	+36%

Source: Bloomberg, [redacted]
Disclosure: Not representative of Fund performance. Past performance is not a guarantee of future returns.

In May, the press ascribed the rally to anticipation of positive announcements during Consensus, an influential conference in NYC that occurred in mid-May. The week surrounding the Consensus conference has become known as "Blockchain Week" in NYC and has historically played backdrop to a host of new announcements, product launches, and press releases in the

[1] Represents cumulative figures, not annualized.

[redacted]

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FUND COMMENTARY: MAY/JUNE 2019

industry. Though conference anticipation may have contributed to bullishness, ultimately no particularly significant announcements or events drove the positive price action.

May also introduced a number of negative headlines that could have adversely impacted the market in a different momentum environment. For example, on May 7th, Binance, one of the world's best-known and largest Bitcoin exchanges, announced that hackers successfully stole $41mm worth of Bitcoin from customer accounts.[2] Fortunately for its customers – and in a sign of a maturing industry – Binance announced that it had enough cash on balance sheet to shoulder the loss, and no customers lost money as a result of the hack. The market shrugged off the news and traded higher on the day of the announcement.

The rally was equally unfazed by negative developments from the New York Attorney General's inquiry into the practices of Tether, the largest USD "stablecoin," and its affiliated company, the crypto exchange Bitfinex. As a stablecoin, Tether has historically advertised its 1-for-1 USD backing for every "Tether dollar". On May 22nd, a court transcript confirmed that Tether only had $0.74 in reserves for every $1 in Tether liabilities, as $850 million was reportedly frozen or withheld by various governments.[3] Furthermore, Bitfinex's attorney disclosed that it invested its USD reserves in a variety of risky assets, including Bitcoin.

As a reminder, because of [redacted]'s decision to approach digital assets in a regulated and thoughtful manner, both Bitfinex and Binance failed to meet the diligence requirements necessary to allow the Fund to trade on those exchanges. Similarly, we have not held or traded Tether.

In a different market environment, this kind of negative news could have sent digital asset prices into a tailspin. However, in recent trading, positive sentiment seemed to overpower any negative news. For example, Bitfinex announced that it was able to raise $1 billion in funding by selling a new token to fill its balance sheet shortfall.

May's positive price momentum in the face of negative news may be a signal that the selling pressure that characterized much of 2017/2018 has been absorbed.

In June, the release of Facebook's Libra white paper dominated the news. The announcement of Libra captured the attention of the press and drowned out several other interesting headlines, including Ripple's announcement that it acquired a 10% stake in Moneygram International (MGI) for $30 million as part of a strategic partnership under which Moneygram will use XRP along with Ripple's xRapid product for settlement of cross-border payments.[4] A few years ago, it would have been outrageous to suggest that a crypto company would acquire a significant stake in a well-known, publicly-traded remittance firm.

A Surge in Bitcoin Trading Volume

Figure 3 shows Bitcoin trading volume in the spot market across regulated exchanges[5] and in the Chicago Mercantile Exchange (CME) futures market.[6] After a relative lull in recent activity, volumes rebounded substantially in May and June. Futures volume, driven mostly by institutional participants, was particularly noteworthy. Futures volume set

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[2] https://www.reuters.com/article/us-crypto-currency-cyber-binance/hackers-steal-41-million-worth-of-bitcoin-from-binance-cryptocurrency-exchange-idUSKCN1SE0FK

[3] https://modernconsensus.com/cryptocurrencies/tether/bitfinex-tether-reserves-bitcoin/.

[4] https://www.ft.com/content/d0c3079a-91c5-11e9-aea1-2b1d33ac3271

[5] Includes only NY-regulated exchanges: Coinbase, Gemini, Bitstamp and ItBit.

[6] A spot market is a financial instrument which is traded for immediate delivery; a futures market is traded for future delivery.

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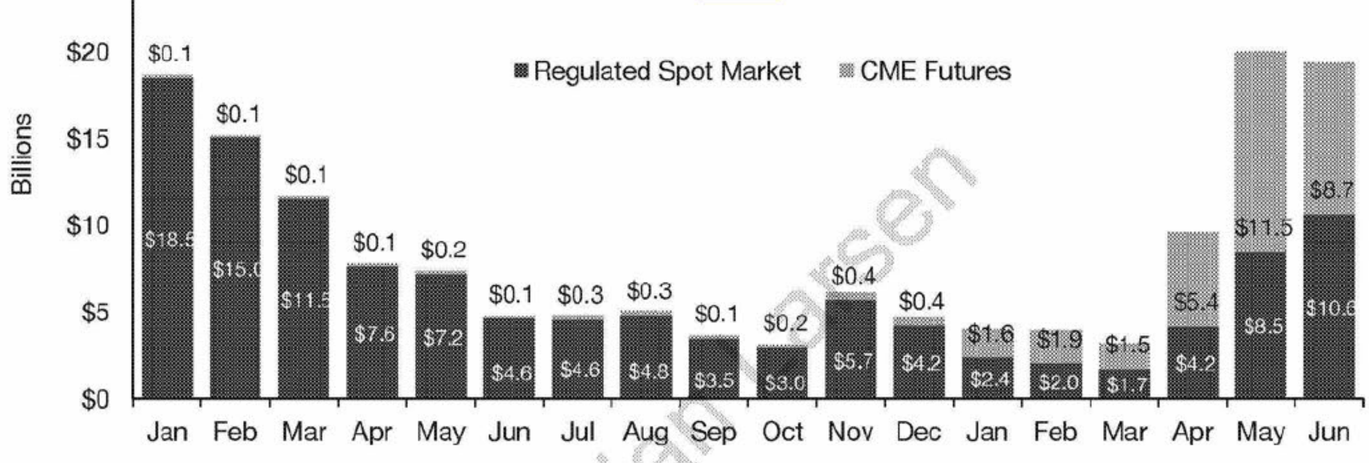
FUND COMMENTARY: MAY/JUNE 2019

a record in May and exceeded twice-the-prior-month's record number (which overtook regulated spot trading volume for the first time).

Figure 3: Bitcoin Volumes in Regulated Spot Market and Futures Market
Source: [redacted] Bloomberg.



CME releases a weekly report called the "Commitment of Traders" which categorizes the types of firms that hold its various futures contracts. It separates participants into Commercial Traders (typically commodity producers/consumers that have a commercial hedging need), Non-Commercial Traders (institutional traders or speculators without a direct business need to trade the contract), and Nonreportable Positions (typically retail traders).

Though Bitcoin futures could theoretically be used by Bitcoin miners to hedge price risk, the [redacted] data shows that commercial hedging usage is effectively zero. About 2/3rds of the futures open interest comes from institutional speculators with the remaining 1/3 listed as non-reportable (retail). Many market participants, including [redacted] anticipate increased institutional trading activity as part of the long-term thesis for digital assets. This increase in futures interest is one positive sign of its emergence.

For long-term holders, direct investment in digital assets has proven more cost-effective than futures, though the developing futures market provides market participants with the ability to short the asset class in a transparent way. We are encouraged to see this product continue to grow its share of the total market.

Libra: The Facebook Cryptocurrency

On June 18th, Facebook released a whitepaper explaining "Libra" – its previously-secretive plan to enter the digital asset space.[7] Though Facebook incubated the project, the company created an independent, not-for-profit, Switzerland-based organization called "The Association," which will consist of 100 member firms responsible for launching, maintaining, and governing the project. Facebook emphasized that Libra is independent – Facebook will be on equal footing with other Association members, providing only 1% of voting influence. Each member firm is expected to contribute $10mm to fund the project. At launch, members include well-known firms such as Visa,

[7] https://libra.org/en-US/white-paper/.

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FUND COMMENTARY: MAY/JUNE 2019

Mastercard, Andreesen Horowitz, and Ebay. This closed group will initially be charged with operating the network nodes that verify transactions and maintain the ledger, though the Libra whitepaper promised a more decentralized and permission-less state in the future.

Like most cryptocurrencies, Libra will have an open architecture, meaning that anyone can build services utilizing the digital asset without permission from Facebook or anyone else. Facebook announced plans to launch its own wallet service, Calibra, that will allow users of its other products to store and send Libra tokens to each other, though anyone else in the world is welcome to compete in the Libra ecosystem with another wallet or service.

In contrast to the typical notion of cryptocurrency – where the digital assets have no intrinsic value and are only valuable because people agree to use them as money – Libra looks more like a "stablecoin" – i.e., each unit of Libra will be backed by a defined basket of government-issued fiat currency held at a traditional bank in a reserve account managed by the Association. New units of Libra will be created (minted) and destroyed (burned) by authorized resellers against deposits/withdrawals in the reserve account. Facebook's white paper indicated that this design is intended to reduce the volatility of Libra with the goal of making it a useful form of money – aimed, in particular, at emerging economies with unstable currencies and cross-border payments.

The Libra announcement may prove to be a watershed moment for the digital asset space. Though Bitcoin has been front-page news for years at this point, many still view it as a fringe asset. Facebook's entry into the space serves to "mainstream" the idea of privately-issued currencies that compete over the internet on a global scale with national currencies. In addition to making crypto more mainstream, the Libra infrastructure is expected to utilize much of the same infrastructure used to trade Bitcoin and other permission-less assets. The participation of Facebook could vastly improve the accessibility of these assets and draw more capital expenditure into servicing the crypto space.

Very interestingly, Bitcoin and other digital assets reacted positively to the announcement. Given the inflationary nature of most government-issued currencies, many digital asset enthusiasts continue to believe that digital assets have the potential to be better long-term stores of value due to their deflationary design.

In addition, there remain many regulatory questions surrounding Facebook's plans for Libra. Within hours of the announcement, government officials from multiple countries had already announced their intention to hold hearings and call on Facebook and Libra Association executives to testify. In a jab at Libra's centralized organizational model, Bitcoin proponents joked that, "Bitcoin executives couldn't be reached for comment on the matter." (There are no executives or any company responsible for Bitcoin). In many ways, this launch served to emphasize the difference between "permissioned" projects, like Libra, that have a centralized decision-making body and Bitcoin, which is governed by a loosely defined and resilient ecosystem of users around the world.

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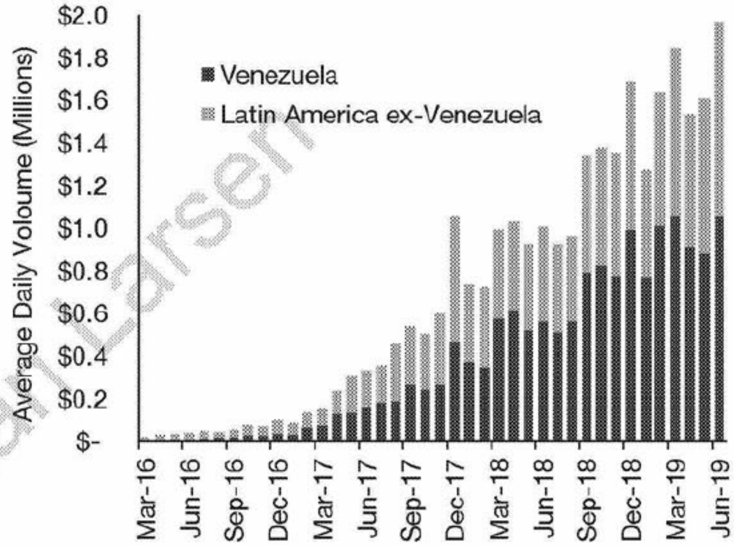
FUND COMMENTARY: MAY/JUNE 2019

Venezuela Leads Latin America in Bitcoin Demand

Figure 4 shows the average daily volume of Bitcoins exchanged in the peer-to-peer market in Venezuela and in Latin America.[8] Though $1.6mm per day still seems nascent, the growth rate is interesting, and Venezuela's dominance in the region is particularly noteworthy given the political/economic turmoil in the country. US GDP is about 40x larger than Venezuela's, so the GDP-adjusted equivalent for the US would be $35 million in transactions per day, or just over $1 billion per month.

Figure 4: Venezuela and Latin America Average Daily Volumes ($ millions)

Source: [redacted] Localbitcoins.com



As noted in prior commentaries, and reinforced by Facebook's decision to launch a cryptocurrency, the developing world may benefit most from digital assets. In the past century, most of the world's countries transitioned from asset-backed money to fiat money, and while some governments have responsibly used debt to fuel their economy or fund infrastructure development, most national governments have a poor track record of wielding their power to print. Citizens of those countries may embrace digital assets as an alternative store of value that is not subject to inflationary measures taken by their governments, providing them with a hedge against the sort of currency devaluation Venezuela has suffered.

RISK DISCLOSURES

An investment in the Fund involves unique and substantial risks, including:

- **Values of digital assets have historically been highly volatile, and the value of the digital assets held by the Fund could decline rapidly, including to zero.**
- **Multiple thefts of digital assets from holders have occurred, and the assets of the Fund could be stolen either partially or in their entirety.**

You should be prepared to lose your entire investment. The objective of the Fund is to seek to capture the performance of the digital asset market by investing in a market capitalization-weighted portfolio of digital assets. There can be no assurance that the Fund will achieve its investment objective. Please refer to the Fund's confidential offering memorandum for a full discussion of the risks of investing in the Fund. Investors should carefully consider the Funds' risks and investment objectives, as an investment in the Fund may not be appropriate for all investors and the Fund is not designed to be a complete investment program. An investment in the Fund involves a high degree of risk. It is possible that investing in the Fund may result in a loss of some or all of the amount invested. Before making an investment decision, you should (i) consider the suitability of this investment with respect to your investment objectives and individual situation and (ii) consider factors such as your net worth,

[8] Localbitcoins.com is a website that facilitates the trading of Bitcoins directly between two parties. Counterparties often meet face-to-face or communicate directly in order to negotiate trades.

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FUND COMMENTARY: MAY/JUNE 2019

income, age and risk tolerance. You should not invest if you have a short-term investing horizon and/or cannot bear the loss of some or all of the investment.

The Fund has limited operating history.

The Fund is currently only being offered on a private placement basis. Shares of the Fund (the "Shares") may be purchased by, and are suitable only for, investors who are "accredited investors" (as defined in Regulation D under the U.S. Securities Act of 1933, as amended (the "Securities Act")). Offers and sales of Shares have not been registered under the laws of any jurisdiction, including the Securities Act, the laws of any state of the United States of America, or the laws of any non-U.S. jurisdiction. The Shares will be offered and sold under the exemption provided by section 4(a)(2) of the Securities Act and Regulation D promulgated thereunder and other exemptions of similar import in the laws of the states of the United States and other foreign jurisdictions where the offerings will be made. There is no public market for the Shares, and no such market is expected to develop in the future.

The Fund will not be registered as an investment company under the U.S. Investment Company Act of 1940, as amended (the "Investment Company Act"). Consequently, investors will not be afforded the protections of the Investment Company Act.

[redacted] **is a member of NFA and is subject to NFA's regulatory oversight and examinations. However, you should be aware that NFA does not have regulatory oversight authority over underlying or spot virtual currency products or transactions or virtual currency exchanges, custodians or markets.**

Although the Manager, [redacted] is an investment adviser registered with the Securities and Exchange Commission and a commodity pool operator registered with the Commodity Futures Trading Commission, the Manager will not be acting in either such capacity with respect to the Fund, and the Manager's provision of services to the Fund will not be governed by the Investment Advisers Act of 1940 or the Commodity Exchange Act of 1936.

The Shares will initially have no liquidity and even after the Fund commences the quarterly repurchase offers, the Shares will have limited liquidity.

The Fund intends to conduct quarterly repurchase offers for its Shares to provide liquidity to investors following an IPO or July 1, 2018, whichever is sooner. Repurchase offers may affect the ability of the Fund to be fully invested or force the Fund to maintain a higher percentage of its assets in cash or liquid investments. Shareholders may be subject to market risk and other risks in connection with any repurchase offer and the Fund may incur tax liabilities as a result of sales of digital assets made in connection with any repurchase offer.

This material is only a summary. This summary does not contain the information that you should consider before investing in the Shares. You should review the more detailed information contained in the Offering Memorandum. In particular, you should carefully read the risks of investing in the Shares, as discussed under "Risk Factors".

Certain features of the Fund's investment policies may cause the Fund to not invest in digital assets that are appreciating, and overweight relative to digital assets that are depreciating.

If regulatory changes or interpretations require the regulation of one or more digital assets under the Commodity Exchange Act by the CFTC and/or under the Securities Act, Investment Company Act, or U.S. Investment Advisers Act of 1940, as amended, by the SEC, compliance with these requirements could result in additional expenses to the Fund or limit the ability of the Fund to pursue its investment objective.

Regulatory changes or actions may alter the nature of an investment in the Shares or restrict the use of digital assets or the operation of digital asset networks or exchanges in a manner that adversely affects an investment in the Shares. Without limiting the generality of the foregoing, it may be or become illegal to acquire, own, hold, sell or use digital assets in one or more countries.

Values of digital assets have historically been highly volatile. The value of the digital assets held by the Fund could decline rapidly, including to zero.

The Fund's digital assets may be subject to loss, theft or restriction on access, each of which could result in loss to the Fund or the halting of Fund operations. You should not invest unless you understand the risk that the Fund's assets may be stolen. Multiple thefts of digital

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FUND COMMENTARY: MAY/JUNE 2019

assets from other holders have occurred in the past. Because of the decentralized process for transferring digital assets, the thefts can be difficult to trace, which may make digital assets a particularly attractive target for theft. The Fund has adopted security procedures intended to protect its assets, but there can be no assurance that those procedures will be successful in preventing such loss, theft or restriction of access. Without limiting the generality of the foregoing, if the source code or cryptography underlying a digital asset held by the Fund proves to be flawed or ineffective, malicious actors may be able to steal the Fund's digital assets.

The further development and acceptance of digital assets, which are part of a new and rapidly changing industry, are subject to a variety of factors that are difficult to evaluate. Without limiting the generality of the foregoing, digital assets face significant scaling obstacles that can lead to high fees or slow transaction settlement times, and attempts to increase the volume of transactions may not be effective. The slowing or stopping of the development or acceptance of such digital assets may adversely affect an investment in the Shares.

The loss or destruction of a private key required to access the Fund's digital assets may be irreversible. The loss of access to the private keys associated with the Fund's digital assets could adversely affect an investment in the Shares.

If a malicious actor or botnet obtains control of more than 50% of the processing power on a digital asset network, such actor or botnet could manipulate the blockchain to adversely affect the Fund's investments or the ability of the Fund to operate.

The digital asset exchanges on which digital assets trade are relatively new and, in most cases, largely unregulated and, therefore, may be more exposed to fraud and failure than established, regulated exchanges for other assets. Any fraud, security failure or operational problems experienced by the digital asset exchanges could result in reduction in value of the digital asset and adversely affect an investment in the Shares.

The Fund may engage in digital asset lending transactions, which could result in losses for the Fund if any borrower under such transaction fails to perform or fails financially, could increase the risk that the Fund's digital assets are lost or stolen, and could negatively impact the trading prices in the digital assets held by the Fund.

These materials were prepared solely for the purpose of furnishing information on a confidential basis to persons interested in the Fund. This information is strictly confidential and proprietary, and its disclosure to an unauthorized recipient could cause significant harm to [redacted] or the Fund. By accepting these materials, you agree to maintain this information in the strictest confidence and to protect and safeguard these materials against any unauthorized publication or disclosure. You may not copy or reproduce this information in whole or in part without our prior written consent. You may not distribute these materials or disclose their contents to any person without our consent except to the extent required by law.

These materials do not constitute an offer to sell or a solicitation of an offer to buy Shares. Such an offer, if made, may be made only through the confidential offering memorandum of the Fund and the Fund's constituent documents. The information contained herein is qualified in its entirety by reference to the Fund's confidential offering memorandum, which contains information about the investment objective, terms and conditions of the Fund, as well as certain tax information, risk disclosures and information about conflicts of interest.

The information provided herein is based on matters as they exist as of the date of preparation, and may not be updated or otherwise revised to reflect information that subsequently becomes available, or circumstances existing or changes occurring after the date hereof.

Neither the U.S. Securities and Exchange Commission nor any state securities commission has approved or disapproved of the Shares or passed upon the adequacy or accuracy of these materials. Any representation to the contrary is a criminal offense.

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